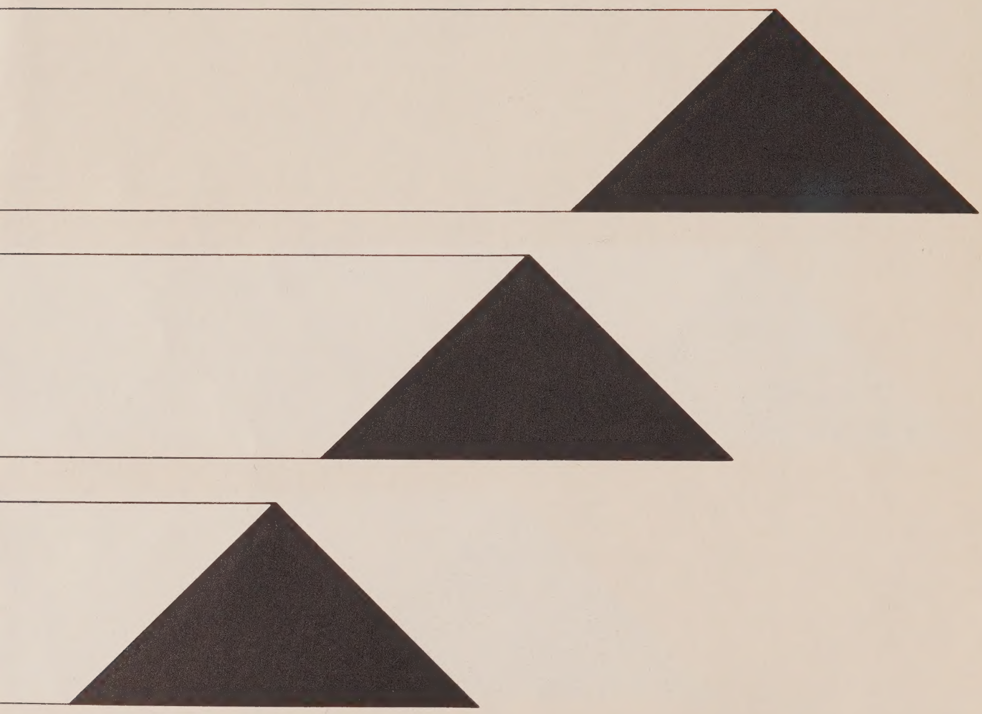
GETTING A MORTGAGE

Ontario

Ministry of
Consumer and
Commercial
Relations

A mortgage may be the best way to get the house you want or to raise urgently needed money. But handled unwisely, a mortgage can be a major source of financial difficulty for the average Canadian family. You could even lose the house you have worked and saved for. To prevent this, you will need to ask questions and use caution.



"What can go wrong?"

When things go wrong with a mortgage it is usually because the borrower does not fully understand what the total cost is or how much time he has to pay it back. Misunderstandings may be the fault of the borrower or the lender, but it is almost always the borrower who gets hurt. Let's look at some of the common misunderstandings that can occur.

"I can always get that advertised Low Interest Rate"

Some lenders and mortgage brokers advertise low rates for mortgages. They may even promise you on the telephone that you will be able to get your mortgage at these low rates.

Very often, however, it turns out that "there is no more money at the lower rates" or that the special low rates are only available to people who have a solid financial position.

You may believe you qualify for the low rate, but, when you go to conclude the transaction, you may find out it will cost you much more. The extra cost may jeopardize your plans.

"Where can I get a Mortgage?"

Mortgage funds are available from banks, loan and trust corporations, insurance companies, credit unions, finance companies and private individuals. You can also arrange a loan through a registered mortgage broker who may lend his own funds or who may deal with any or all of the above-mentioned.

"Instead of a Second Mortgage, why not a bigger First Mortgage?"

Let's suppose you have $30,000 left to pay on your first mortgage which is at 9%. Let's also suppose you need $5,000 and you are thinking of a second mortgage.

The lender or broker may suggest that instead of having two payments — one for the first mortgage and one for the second — you should just have one payment for a new, larger first mortgage. He might suggest, for example, a new first mortgage of $35,000 at 10½% instead of your existing first mortgage of $30,000 at 9% and a standard second mortgage of $5,000 at around 14%.

Stop and think. If you keep your 9 per cent mortgage and take the second mortgage, your total interest payments during the next year would be $3,400. If you take the new first mortgage, the interest will cost you $3,675 next year. So don't give up that lower interest first mortgage unless you are really going to get a better deal. In the example given above, for instance, you might get a better deal by keeping that first mortgage and getting a second mortgage for $5,000 at 14 per cent. In short, weigh all the economic advantages and disadvantages carefully before you refinance!

"Can't I get a Second Mortgage that will cover my First Mortgage too?"

Yes, you can. It's called an umbrella mortgage. This is where things can really get complicated and great caution is needed.

Let's suppose you have a $30,000 house, and $20,000 to pay off on the first mortgage at 8 per cent. You need $5,000 and you have heard that you can get a homeowner's loan on a second mortgage basis.

The lender tells you that you can have the $5,000 second mortgage you want at 14 per cent but that you will need to make two payments — one for the first mortgage and one for the second.

As an alternative, the lender may suggest that you can turn the $20,000 first mortgage over to him and he will pay it off for you. In its place he will give you one large mortgage covering the total amount at, say 12 per cent. This is an umbrella mortgage.

Taking the umbrella mortgage means you will then have a new mortgage for the combined amount of $25,000 at 12 per cent — this $25,000 being the amount of your first mortgage plus the $5,000 you wanted in the first place.

The interest payments are now $3,000 for the next year rather than $1,600 and the effective rate of interest on the $5,000 you borrowed is 28 per cent. That kind of interest rate is simply far too high.

"Why not take out a Mortgage so I can consolidate my debts?"

It depends upon what your debts are and how much interest you are paying. Some advertisements may tell you to consolidate all your debts with a mortgage so that you are left with only one monthly payment smaller in total than the combined monthly payments you were paying before. Sometimes this is a good idea. But it doesn't work every time.

Let's think it through. Consolidating your debts with a mortgage can be cheaper only if the interest rate on the mortgage is lower than the interest on the other debts you want to consolidate. But that's not all to watch for. Just because the interest rate or the size of the monthly payment is lower doesn't mean you will end up paying less. You may have a smaller monthly payment or a slightly lower interest rate but the repayment may extend over a longer period of time, making the total interest charges more expensive in the long run. Or, you may make smaller monthly payments, but get left with a very large payment at the end of the mortgage.

Don't just look on the surface. Figure out the total interest on your present debts if you pay them off over a reasonable period of time and then compare that with the total interest you will pay on the mortgage. Insist upon getting this comparison straight before you make a decision on a mortgage. We think this is sound advice. Indeed, this advice doesn't just apply to mortgage financing, it applies to all forms of consumer borrowing.

"I'm buying a house, will I save money if I make a larger cash downpayment? Isn't it easier to arrange a Second Mortgage with the present owner?"

You may get the house cheaper if you are in a position to pay all cash to the first mortgage. If, however, you haven't got sufficient cash to do that, you may need to arrange a second mortgage. If you do, it's easier and cheaper to arrange in your purchase agreement to give the seller a second mortgage since he will probably offer you better terms of repayment and a lower rate of interest than you could obtain if you were to arrange a second mortgage loan with someone other than the seller. Bear in mind though, that if the seller agrees to accept a second mortgage from you as part of the purchase price, he may insist upon a slightly higher price for the house than you might have otherwise paid.

"Can't I save money by using the lender's lawyer?"

You should consult a lawyer who is thinking of your own interests, not the lender's interests. It may cost you a bit more but your interests will be better protected.

"If I pay off my Mortgage fast, will it cost me less?"

Your mortgage may obligate you to pay a bonus to the lender if you wish to make mortgage payments more often or in larger instalments than the scheduled rate of repayment. However, you may find that you still save money by paying off your mortgage . . . especially if you are able to arrange a new mortgage with better terms to suit your financial ability.

Remember too . . . The Canada Interest Act provides that even if you have a mortgage for a longer period of time than 5 years, you are nevertheless entitled to pay off the mortgage at any time after the first five years provided you pay the lender 3 months additional interest.

How to get it right

There are several basic steps you can take to make sure your mortgage is right for you.

1. Always use your own lawyer. It really is worth it.

2. Mortgage rates may not be the same, so shop around for the best available mortgage terms, just as you would shop for any commodity. Compare interest rates and repayment plans. Whether you consult a bank, loan and trust corporation, insurance company, credit union, finance company, private individual or registered mortgage broker, don't hesitate to ask specific questions and insist on specific answers. Bear in mind that there may be certain costs involved in arranging mortgages, such as the lender's legal fees and disbursements, appraisal fees and commissions. Find out about these costs in advance.

3. If you arrange your mortgage through a registered mortgage broker, you are entitled to receive from him a Statement of Mortgage (see sample on next page) at least 24 hours before you are asked to sign the mortgage contract. This is the law in Ontario. Make sure you get this form and study it closely.

4. Don't use a second mortgage to pay off debts that do not have interest charges. Deal directly with the people that you owe money but who are not charging you interest and arrange a repayment schedule with them.

5. Try to avoid borrowing against your house with a second mortgage to buy consumer items or to pay off consumer debts. Keep it as an asset in case of real need. It's not a good idea to put your house in a vulnerable position. Better to have a washing machine repossessed than your home.

6. Don't refinance your house at high interest rates so that you lose your present lower interest rate first mortgage. If debts are pressing you hard, you should consult an expert before you refinance your house. Contact the Social Services Consulting Branch of the Province of Ontario Ministry of Community and Social Services at Queen's Park to determine if there is a Credit Counselling Service near you. They can give you free, honest, professional advice on your overall financial position.

7. Let us know if you get into trouble. Write to:

The Registrar of Mortgage Brokers,
The Ministry of Consumer and
Commercial Relations,
Queen's Park,
TORONTO, ONT.

We may be able to help.

FORM 3

STATEMENT OF MORTGAGE

This form must be completed in duplicate in accordance with the Regulations under The Mortgage Brokers Act, 1968-69, and a signed copy given to the borrower at least 24 hours before he is asked to sign any mortgage documents.

Property Mortgaged (address and description of buildings)..

1. Principal amount of the...; ....
(REGULAR OR COLLATERAL) (1ST, 2ND, 3RD)

   Mortgage to be repaid by the Borrower...$________________

2. Deduct Bonus, Charges, Fees, etc. (This amount must equal total items under Section 8)......$________________

3. Amount of money to be paid to the Borrower or to be disbursed on his direction is................$________________

4. **THE MAXIMUM ANNUAL EFFECTIVE RATE OF INTEREST ON THIS MORTGAGE IS** ....%
   (This rate will be higher than the rate shown below in item 5, whenever there is a bonus charged).

5. The Principal amount of the Mortgage (item 1) of $________________ will bear interest at ______% per year

   and will be repayable in________________________instalments of $______________________________interest.
   (MONTHLY OR QUARTERLY) (PLUS OR INCLUDING)

6. The Mortgage will become due and payable in_______years at which time the Borrower, if all payments are made on the due date will owe...$________________

7. The Mortgage is not renewable on the same terms as item 5 above and does not contain any

   privileges or penalties except as follows:...

8. The BONUS, Charges, Fees, etc., to be deducted from the Principal amount of the Mortgage under item 2 above, are made up as follows:
   BONUS on Mortgage...$________________
   Brokerage Fees or Commissions..$________________
   Inspection and Appraisal Fees...$________________
   Lawyer's Fees and Estimated Disbursements of not more than ....$________________
   Other Charges ....$________________ $________________
   TOTAL as shown in item 2 above..$________________

This Mortgage shall be arranged on or before the..........................day of..19...........

I ____ of ____
NAME ADDRESS

the Borrower under this proposed Mortgage, have read and fully understand the above Statement furnished me by____

____
NAME AND ADDRESS OF BROKER

I have not yet signed any Mortgage Papers or Blank Documents on this mortgage and now sign this Statement in duplicate, which has been fully completed this______________day of________________________19_____, and I hereby acknowledge receipt of a fully completed signed copy.

____
Signature of Borrower

I ____ have fully completed the above Statement
NAME OF BROKER

in duplicate and have furnished one signed copy to the Borrower on the above date.

____
Signature of Broker

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